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## China, Peoples Republic of

### Agricultural Situation

### Grain and Oilseed Market Situation Update

### 2008

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**Report Highlights:** Government officials have been concerned over increasing food prices and adequate grains supplies for some time. Since the food price surges began in mid-2007, a series of policies have been implemented by the Government of China (GOC) in order to placate rising food prices; however, with production costs also increasing at a rapid pace, a new set of policies provide guarantees to farmers. Grain farmers cannot capture the benefits of high international grains prices due to escalating prices of agricultural inputs, rising fuels costs, price caps, and export control policies. The difference in grains prices between China and international markets could have rendered benefits for grains farmers; however, the GOC has firmly managed grain exports with a strict export quota permit regime.

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### China's Inflation Situation

Last year, the National Development Reform Commission (NDRC) underestimated growth for consumer price inflation for 2008 at just below five percent. In June of 2008, China's Ministry of Finance (MOF) reported that monthly consumer price inflation decreased to seven percent in June compared with the 7.8 percent May figure. Average food inflation for the first six months of 2008 ranged between eight and nine percent. Overall, consumer prices for staple goods continue to be on average close to nine percent higher than last year. A third of China's consumer price index (CPI) is weighted on food costs of staple goods such as pork, rice and cooking oil. Out of the following three commodities, rice is the only staple good that has remained stable in price since the surges in food prices began in mid-2007.

The Government of China (GOC) has managed price inflation through the implementation of policy measures (See GAIN 8011, 8012, 8025) that included price caps and export controls to protect consumers and give the impression of sufficient grain reserves amidst the sudden jump in global grains prices. The GOC has traditionally priced agricultural commodities low in order to exploit the countryside's abundant human resources to fuel urbanization. However, with a mounting producer price index (PPI) appreciating at a precipitous pace, the GOC is scrambling to offer protection to the supplied side of China's agriculture: the rural sector. Subsidy allocation is not a clear-cut solution to solving the issue of high producer costs. The question remains who will be on the receiving end of such an appropriation: direct cash payments to farmers, middle consumers (food processors), or cede to imports for the sake of maintaining what the GOC would consider an acceptable national grain supply.

The agricultural production pipeline has absorbed inflationary pressures originating from rising fuels costs that impact transportation, processing and overall marketing; however, the added burden of rising input costs is also a debilitating factor. Among all fertilizers, the compound fertilizer (N, P and K) prices witnessed the largest price rise, up by about 70 percent during the spring planting season. Despite this sharp increase in price, most grains farmers did not reduce the use of fertilizers/ha.

The GOC is now facing the insurmountable task of curbing inflation at a time when the economy is cooling and the currency is appreciating.

### Grains and Feed Sector

#### Grain prices will remain high in Marketing Year (MY) 2008/09

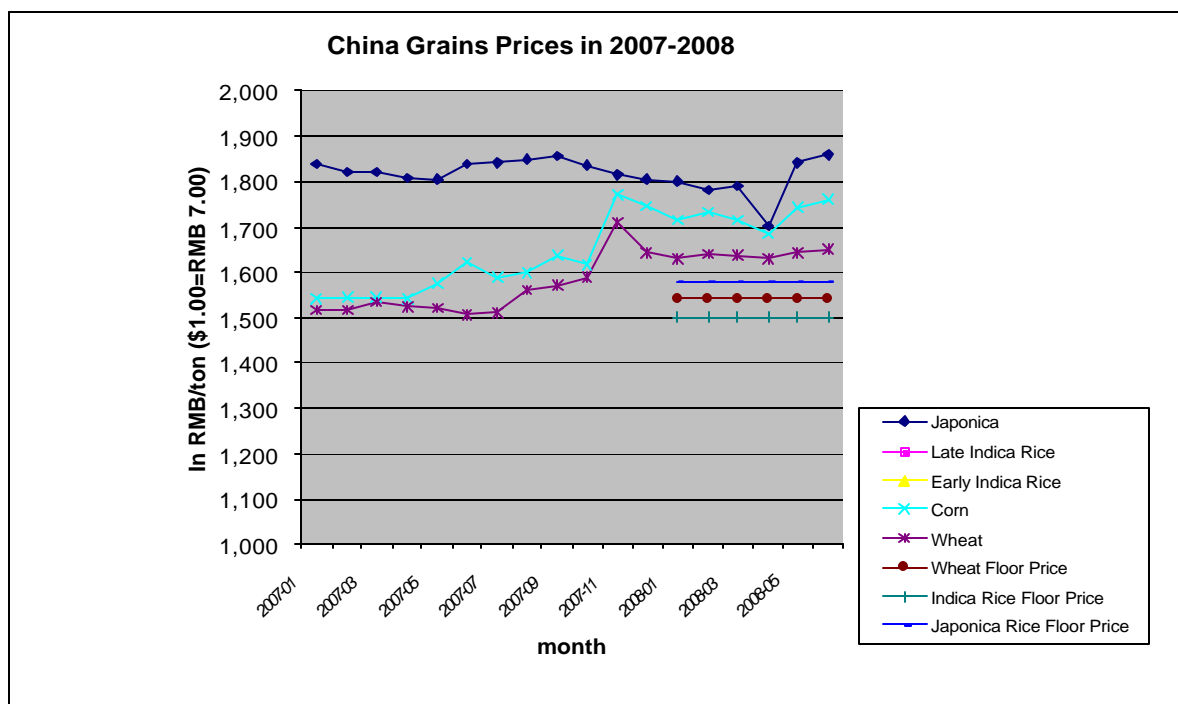
Record-high grains prices rose again in the second quarter of 2008 ranging between 8 to 23 percent higher than the last three-year average. Wheat and corn prices witnessed a smaller price increase compared with Indica rice, which is indicative of a good crop prospect for corn and a record wheat harvest for the fifth consecutive year. Japonica rice prices dropped by less than 1 percent in the second quarter of 2008, this is mainly because of a bumper rice harvest in north and northeastern provinces in MY07/08.

Grain Prices in the 2nd Quarter of 2008 (\$/ton) with Year-to-Date Changes				
Japonica Rice	Late Indica Rice	Early Indica Rice	Corn	Wheat
257	268	272	247	235
-1%	13%	23%	10%	8%

The current market price for the new wheat crop averaged about \$234/ton in July, while the government set the floor price for winter wheat in 2008 at \$220/ton (RMB1,540). Industry sources reported that the harvested wheat quality has been higher than last year, due to favorable weather conditions during harvest. Due to an increase in quality and high

production costs given the rise in agricultural input costs, specifically for fertilizers and seeds, farmers will be expecting higher prices for the new crop. Post's survey of corn farmers also indicates that the rise in fuels and chemical prices will likely carry over to the total production cost and eventually be passed on to consumers. Corn farmers in Northeastern China reported that the overall cost for chemical fertilizers/ha rose by about 30 percent in 2008 from the previous year. However, most of the corn farmers did not reduce the use of fertilizers/ha despite this sharp rise in price.

In MY08/09, corn acreage in northeastern China is estimated to drop 1 percent from the previous year due to competition from soybeans. Current crop conditions are better than average years due to sufficient rainfall during the planting period in May and favorable weather conditions in June and July.

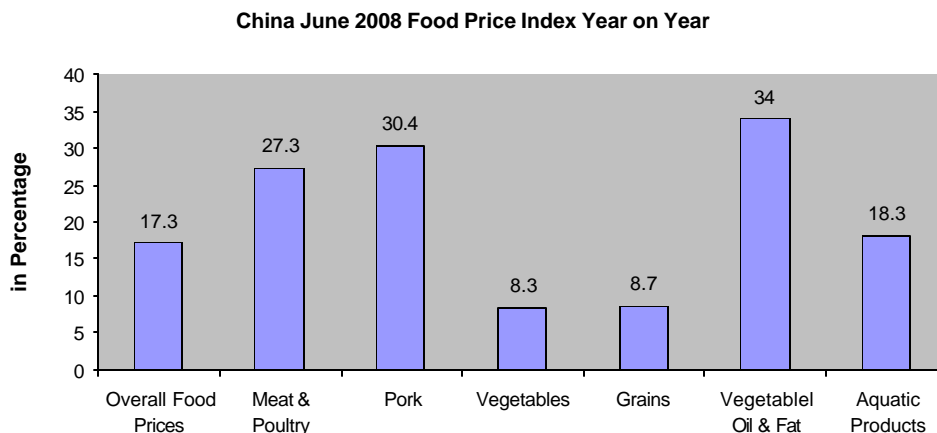


(Source: China JCI)

The table above shows the market price for rice has been higher than the government set floor price. In Hunan and Jiangxi provinces, the price for early Indica rice in July was 10 percent higher than the government floor price of \$220/ton. As a result, rice farmers are reluctant to sell their harvest to state grain purchasing companies.

#### Monthly food prices in June 2008 rose by 17 percent

According to the National Statistical Bureau (NSB), food prices rose 17 percent compared with June of the previous year, while the overall monthly consumer price index (CPI) rose 7.1 percent year on year.



Source: National Statistics Bureau (NSB)

### Domestic grains prices lower than international markets

Currently, the estimated landed price for U.S. wheat in August shipments to southern China was more than twice the price of domestic wheat. Similarly, the estimated landed price for U.S. corn in August shipments was about 60 percent higher than domestic corn. In the coming months, Post forecasts no imports of corn or wheat.

Landed prices for U.S Grains versus Domestic Grains Prices (\$/ton)			
U.S. Soft Red Winter	Domestic Wheat in June	U.S Corn	Domestic Corn in June
555	243	406	259
Note: U.S. landed price based on CBOT for August 2008			
Source: China JCI			

The vast difference in grain prices between China and international markets could have rendered great profit margins for grain exports; however, the central government has firmly managed grain exports with a strict export-quota permit regime. In 2008, the government stopped issuing new export quotas for corn and wheat. Though, minimal amounts of corn exports were shipped to Taiwan and North Korea in recent months, these were isolated events driven by political motivations. In January-May 2008, China's corn exports to Taiwan totaled only 26,000 metric tons (MT). Additional shipments to Taiwan are expected in the coming months. A separate state media report indicated that North Korea requested corn exports of 150,000 tons from China in early 2008. However, China's central government thus far has only officially approved 50,000 tons of corn exports categorized as food aid to North Korea in the first half of 2008. The export price was FOB \$310/ton, according to one grain trader.

### Government officials crack down on grain smuggling in recent months

Widening price differences between China's controlled grain prices and those in other countries has triggered grain smuggling from China to foreign countries, according to media reports. The steep price differences for domestic rice varieties and those for popular Thai rice varieties reached its peak 1:4, creating incentives for illicit deals between traders in China and buyers in neighboring countries.

According to the state media, there were diverse channels for smuggling to an array of destinations including Vietnam, Indonesia, and Central Asian countries like Kazakhstan and

Kyrgyzstan, with the smuggling to Macao and Hong Kong believed to be for transshipment to third countries. The smuggled grains include rice, wheat, and wheat flour. According to customs officials, most of the smuggling was conducted in small parcels through border trade. A large portion of the shipments destined for Southeast Asia were intercepted by China Customs in recent months. For instance, in Hekou city, one bordering city in Yunnan province with Vietnam, customs officials detected 8.1 tons of rice and 2 tons of wheat flour in the first quarter of 2008. So far, customs officials have not reported any detection of bulk shipment smuggling. The central government has urged customs officials at ports to intensify inspections to further prevent grain smuggling.

Inspection regimes have been reportedly tightened for shipments of agricultural products. Customs officials in cities such as Shenzhen, Nanning, Kunming, and Hangzhou have intercepted shipments of mislabeled exports of rice and other grains. However, legal exports of rice and other grains continue. In Guangdong province, for example, customs authorities reported that grain exports in the first four months of this year dropped 36 percent, compared to the same period in 2007, with a 63-percent increase in the average export price.

Smuggling of grains from China to other countries does not pose a material risk to grain supply yet. However, agricultural and customs officials are concerned that in areas such as Guangdong province where grain supplies rely on other parts of China, such loss of supply could impact regional market prices.

#### **Shandong Province to boost expenditures for grain purchases**

The regional government in Shandong has announced plans to spend a total of \$425 million (2.9 billion RMB) to support the overall purchase of 650 million kg of summer grain. The news comes from the Shandong Branch of the Agricultural Bank of China (ABC), which reports the amount spent to support enterprises' grain purchases. As China's largest wheat producer, Shandong will produce an estimated 9.75 billion kg of wheat. Estimates from the ABC indicate food-processing firms in the region need about \$1.5 billion (10 billion RMB) in credit to make seasonal grain purchases, with the \$400,000 (2.9 billion RMB) figure representing a healthy subsidy for downstream food-related industries in the region. ABC has reportedly approved credit lines for grain purchases to approximately 500 firms in the region.

#### **Corn industrial use expected to slow down in MY07/08**

Industry sources reported that the profit margin for corn starch manufacturers has narrowed considerably in MY07/08 due to the following factors: 1) corn prices in 2008 are estimated to rise by 10 percent over the previous year as well as rising fuel and transportation costs; 2) the 2008 implementation of an export tax on corn starch and ethanol exports; 3) high costs incurred by environmental emission restriction requirements prior to the Beijing Olympic Games.

#### **Summer grains hit a five-year record bumper harvest in 2008**

The National Statistical Bureau (NSB) reported that the summer grain crops (including winter wheat and early-season rice) production rose 3 percent year-to-date to 120.41 million metric tons (MMT), the average yield reached a five-year record of 4.49 mt/ha. NSB also reported that total meat production including pork, beef, mutton, and poultry rose 5 percent year-to-date to 31.9 MMT in the first half of 2008. Slaughtered hog and inventory rose 4 and 5 percent respectively in the first half of the year, indicating the hog sector is on the track full recovery.

### Floods in southern China caused less- than- anticipated damage

In June of 2008, the state media reported frequently on flood damages in select southern China provinces after nine provinces witnessed an early advent of unexpected heavy rainfall. However, the damage is less than previously estimated. The latest report by the National Anti-Flood and Drought Office showed that by early July, the acreage affected by flood or drought reached 3.64 million ha, dropping by 46 percent from the previous year.

### Grain production up in Jilin province

China's northeast Jilin province plans to increase grain production to 30 million tons in the next five years. This is a 20-percent increase from the current 25 MMT. According to the provincial leaders, the target will be achieved through the use of new varieties and the adoption of new technology. According to provincial press releases, additional farm land is planned to be brought into production and greater efforts will be made to control pests and diseases in order to reduce grain losses. Jilin Province produces 12 percent of the national total commercial grain supplies.

### National Average Gains Price in 2007-2008 (\$/ton)

	Japonica	Late Indica Rice	Early Indica Rice	Corn	Wheat
2007-01	263	234	224	220	216
2007-02	260	234	223	221	217
2007-03	260	238	221	220	219
2007-04	258	236	221	220	218
2007-05	258	236	222	225	217
2007-06	263	239	221	232	215
2007-07	263	238	225	227	216
2007-08	264	240	240	229	223
2007-09	265	244	239	234	225
2007-10	262	243	235	231	227
2007-11	259	242	233	253	244
2007-12	258	245	234	250	235
2008-01	257	245	234	245	233
2008-02	254	249	237	247	234
2008-03	256	251	240	245	234
2008-04	243	250	257	241	233
2008-05	263	276	277	249	235
2008-06	266	276	281	252	236

Source: China JCI

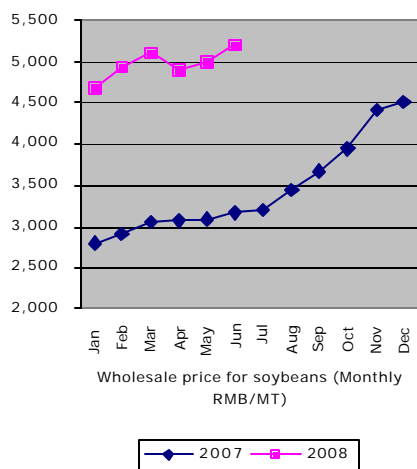
## Oilseeds Sector

### MY08/09 total oilseed production is expected to increase 3.4 MMT

MY08/09 domestic oilseed production is expected to reach 56.2 MMT mainly because of an anticipated increase in soybean and rapeseed production. This is 3.4 MMT higher than the adjusted total oilseed production of 52.8 MMT in MY07/08.

## Soybeans

Post's forecast for MY08/09 domestic soybean production remains unchanged at 16 MMT (GAIN8010). This is a 14-percent increase over the estimated 14 MMT for MY07/08. The forecast production growth is mainly attributable to an expansion in the planted area in the Northeast provinces in response to increased returns from soybeans based on the price surge for oilseed products that began in mid-2007.



According to the July Oilseeds Report of the China National Grain and Oilseed Center (CNGOIC), MY08/09 soybean planted area was estimated at 9.5 MHa, up 19 percent or 1.5 MHa from the previous year. Industry sources indicated that as a result of a serious drought from June to August 2007, soybean yield declined by 15 percent as compared to the previous year. Soybean production costs have risen by 18 percent because of increased prices for fertilizer, seeds, and other inputs. However, in MY07/08, Heilongjiang Province soybean returns generated from nearly doubled to \$490/Ha, from the estimated \$270/Ha in the previous year. The increased returns were proportionately attributable to the sky-rocketing farm-gate purchasing price for soybeans since mid-2007. Among the four major crops

in the province, profit for rice and corn fell by 23 percent and more than three percent, respectively in MY07/08 as compared to the previous year. China's strong demand for oilseed products and bullish prices for soybeans in the global market boosted an expansion of the soybean planted areas in soybean-producing regions particularly in the Northeast provinces.

## Rapeseed

Post estimates MY08/09 rapeseed production at 11.4 MMT, up 900,000 MT from the estimated 10.5 MMT in the previous year. According to China's Ministry of Agriculture (MOA), despite the ice/snow disaster which occurred in the early part of 2008 in Southern provinces, rapeseed production is estimated to increase to 11.85 MMT (up 430,000 MT over the previous year), based on an estimated harvested area of 6.87 MHa (up 745,000Ha over the previous year). This is the highest production in the last four years. The high production is mainly attributable to planted area expansion in response to the increase in prices for rapeseed products since mid-2007. The combination of policy supports including seed subsidies and the dissemination of new rapeseed varieties facilitated a good harvest. In major-producing regions, the farm-gate price for rapeseed ranges from \$1.2 to 1.26 per kg, up 43 percent over the same period in MY07/08. However, CNGOIC forecast the MY08/09 rapeseed production at 11.5 MMT based on a normal yield and increased planted area of 6.4 MHa compared with 5.6MHa in 2006. In May 2008, China's National Statistics Bureau (NSB) released official figures signaling that rapeseed production in MY07/08 was estimated at 10.4 MMT, which was adjusted down based on the results of the 2<sup>nd</sup> National Agriculture Census.

MY08/09 rapeseed production will likely increase as a result of the planted area expansion and in response to price surges for all oilseed products. The Government of China's (GOC) first seed subsidy rapeseed had limited positive impact in boosting the planted

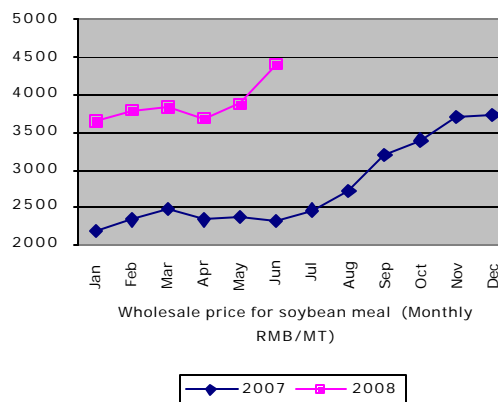
area. Industry sources claim that Hubei's (the largest producing province) production reached 2.27 MMT, up 200,000 MT over the previous year. Post's field study in the major rapeseed producing provinces also showed increased planted area and limited impact from the ice/snow disaster on rapeseed growth. An industry insider in Hubei mentioned that rapeseed farm-gate price began at \$460/MT (RMB3,200) and reached \$800/MT (RMB5,500) from late 2007 through mid-2008. MY07/08 rapeseed gross profit increased 50 percent compared to the previous year. High prices for oilseed products are expected to continue to drive increases in the rapeseed planted area in provinces with winter idle land suitable for rapeseed production.

#### Other oilseed production expected to remain stable

Other oilseeds including peanut, sunflower and cotton seed constitute a small part of China's large oilseed complex. In May 2008, based on the 2<sup>nd</sup> Agriculture Census, NSB released peanut production estimates for MY07/08 at 13 MMT, down from earlier released figures. Peanut production in MY08/09 is forecast at 13.6 MMT mainly because of an expected area expansion in response to the skyrocketing prices for peanut products in the domestic market. Peanuts for crushing are expected to increase slightly to 6.6 MMT. Sunflower production in MY08/09 is forecast at 1.9 MMT, almost unchanged from the previous year. Cotton seed production, however, is forecast at 13.3MMT, less than 13.5 MMT from the previous year. The impact of these oilseeds on protein meal and the vegetable oil market remains limited.

#### Demand for oilseed products continues to grow even as prices remain bullish

MY08/09 soybean imports are forecast at 37 MMT, up six percent from the estimated 35 MMT for MY07/08 (GAIN8010). Additionally, MY07/08 soybean oil and palm oil imports are also expected to increase by 500,000 MT and 400,000 MT, respectively from the 2.4 MMT and 5.1 MMT imports in the previous year.

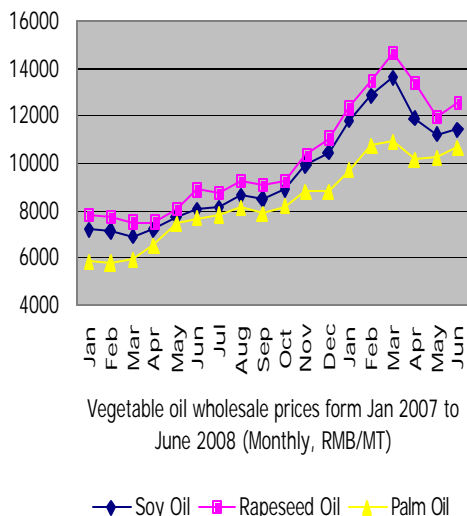


Prices for oilseed products began climbing since mid-2007 and hit record highs in the first months in 2008. According to CNGOIC, the average wholesale price for soybeans fluctuated between \$710 to \$740 per MT from February through May with a record-high of \$754 per MT in June 2008. The wholesale soybean meal price in June 2008 reached \$640 per MT, up 90 percent year-to-date. Wholesale prices for vegetable oils also hit record highs in March 2008 with prices soaring at \$1,676 per MT for soy oil, \$2,126 per MT for rapeseed oil and \$1,583 per MT for palm oil, up sharply 66, 94 and 84 percent, year-to-date respectively. Vegetable oil prices briefly stabilized after April 2008 but are currently at record high levels again.

#### China's animal husbandry sector

China's animal husbandry sector experienced setbacks in 2007 as a result of reduced stocks due to low profits received by farmers in 2006. Outbreaks of animal diseases further hit the sector reducing soybean meal demand. The swine sector began to recover in late 2007 in response to price surges for pork and the central government's policy favoring swine production. According to MOA, in the first half of 2008, China's meat production exceeded 35 MMT, up more than three percent over the previous year. Profit for swine production reached a record high of \$60 and \$87 per head for backyard and industrialized farming, respectively; milk production reached 19.2 MMT, up 12 percent and profit for farmers increased by \$220 per head over the previous year; egg production was 13.4 MMT, growing by more than six percent; total broiler production stood at 5.3 billion birds, up eight percent.

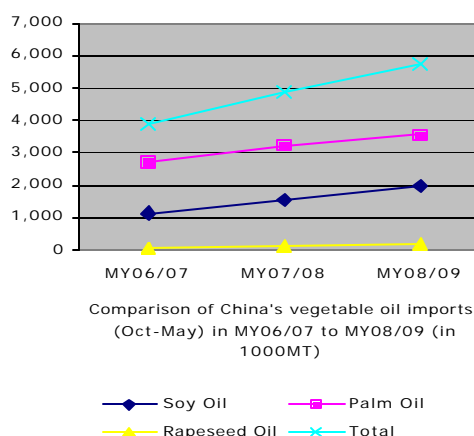
Aquatic production continued growing with sea water cultured production up three percent and fresh water production up six percent in the first quarter of 2008. At the end of May 2008, total aquatic production reached 15.6 MMT, up more than five percent over the same period last year.



The strong recovery of animal and aquaculture production boosted feed production in the first half of 2008. Total feed production is estimated at 59 MMT of which compound feed 45.4 MMT, up more than 11 and 13 percent, respectively over the first half in 2007. Total feed production in 2008 is likely to reach 130 MMT from the estimated 123 MMT in the previous year. As previously reported in GAIN8010, China's soybean demand continues to be driven mainly by a growth in GDP (10.4 percent in the first half of 2008) and growing consumer demand for animal proteins and vegetable oil. Many industry sources expect soybean demand will remain strong in the foreseeable future driven by strong demand for protein meal by the rapidly expanding animal

husbandry sector (including aquaculture) developing feed industry, the appreciating RMB and an overall increase in consumer disposable income.

Trade data in the first months of MY07/08 showed a strong demand for oilseeds and vegetable oils. As of the end of May 2008, MY07/08 soybean imports reached 22.8 MMT, up 24 percent over the corresponding period in MY06/07. Rapeseed imports, though small, also reached 566,000 MT, slightly higher than the previous year. Despite constant high prices for vegetable oils, imports of soybean and palm oils continued growing in MY07/08. By the end of May, imports of soybean oil and palm oil reached 2 MMT and 3.6 MMT, respectively, up notably from the 1.5 MMT and 3.2 MMT in the same period in the previous year.



### Grain security tops on GOC's agenda with self-sufficiency reiterated

On July 2, 2008, China's premier Wen Jiabao chaired a State Council meeting which approved the National Grain Security-Medium and Long Term Plan. The meeting reiterated China's grain supply should rely on domestic production. The plan set a target of grain self-sufficiency rate at 95 percent or above; grain production in 2010 and 2020 is expected to reach 500 MMT and 540 MMT, respectively; total arable land should stand at a minimum of 120 million hectares. The meeting also discussed other measures (including land policy, irrigation investment and grain subsidies) on maintaining planting area for grains. In an earlier report, China's minister for the Ministry of Land and Natural Resources requested all land officials implement the central government's land policy to guarantee total arable land standing above 120 million hectares.

### Biotechnology policy is being revised by the State Council

On July 9, 2008, China's premier Wen Jiabao chaired a State Council meeting which approved a special plan for the development of new crop varieties through bio-technology.

(<http://www.chinanews.com.cn/gn/news/2008/07-09/1307650.shtml>). The meeting stressed the significance of developing new crop varieties through biotechnology in terms of agriculture technology innovation, increase of farmers' incomes, and agricultural competitiveness. The new crop varieties should be characterized with disease and stress resistance, high quality and yield, and efficiency for sustainable agriculture development. The plan was approved based on scientific principles through a strict and democratic process.

The meeting requested all relevant departments to implement the plan without delay. On July 12, the Grain and Oilseeds Daily (associated with the state owned and managed media) analyzed the special plan indicating "government intended to support commercialization of GMO crops". Grain and Oilseeds Daily also released an article about an appropriation of \$2.9 billion (RMB20 billion) designated for GMO development, risk assessment, and commercialization, covering crops (rice, wheat, corn, and cotton) and animals (swine, cattle/cow, and sheep). The article anticipated that GMO rice and corn are the likely crops to be commercialized because China has a substantial amount of funds already invested into GMO rice development with about 10 rice varieties in the process of "environmental release on a small scale."

#### **Other policies on grain security**

The impact of the devastating earthquake in southwest China and flooding in the southern provinces on oilseed production and supply remains limited. According to MOA, in 2008, the central government's agricultural subsidy amounted to \$14.9 billion (RMB102.8 billion), double from the previous year. These funds were used as direct payments in support of grains production, a planting seed subsidy, an agricultural machinery purchasing subsidy, and a comprehensive subsidy that included financial coverage for other agricultural inputs. Another sum of \$1.8 billion (RMB12.6 billion) was provided by the central government to subsidize diesel purchases for fishing vessels; although last year's subsidy was twice as large.

During the June 2008 International Grassland and Rangeland Conference in Inner Mongolia, China, some Chinese senior scientists and officials called for a change to the current "Grain for Pork" to "Grass for Meat" model so as to alleviate the growing tight grain supply situation. Officials and experts argued that China's 350 million hectares of grassland and rangeland could be more efficiently used to alleviate the burden on grains security and to take pressure off of the current high prices for grains for animal feed.

The above mentioned measures are all aimed at maintaining adequate arable land and improving production efficiency (in particular yield) so as to meet the medium and long-term "grain targets" set by the central government.

Despite high prices for major grains in global markets, China's domestic prices for rice and flour remained relatively low mainly because of "adequate stocks" as reported by official media sources. However, some Chinese industry insiders believe that the current grain price gap between domestic and global markets may not facilitate the sustainable development of China's domestic grain production, although it is beneficial to regular consumers in the short term.

#### **Bulk agricultural commodity trade reporting system established**

On June 25, China's Ministry of Commerce (MOFCOM) published MOFCOM Announcement (2008) No. 46 "Announcement on the Catalogue of Agriculture Commodities Subject to the Implementation of Administrative Measures of the Reporting and Information Publication on the Import of Bulk Agriculture Commodities (for trial implementation) and Other Pertinent Issues" and, MOFCOM Decree (2008) No. 10 "The Administrative Measures of the Reporting

and Information Publication on the Import of Bulk Agriculture Commodities (for Trial Implementation)". The original MOFCOM releases are posted at:

<http://www.mofcom.gov.cn/aarticle/b/c/200806/20080605623410.html>

<http://www.mofcom.gov.cn/aarticle/b/c/200806/20080605623539.html>

On July 1, 2008, a high-ranking MOFCOM official advocated that the current version be amended based on the first two drafts and comments (including comments from the United States) received in 2006 and 2007 (GAIN 6116 and GAIN 7045). The purpose of these measures is to facilitate trade through the publication of reliable information in a timely manner.

A preliminary review of the measures and announcement shows that some changes were made based on previous drafts. One significant change is that the "contract value" was removed from the reporting form and the article "the statistical authority may impose a fine up to \$7,200 (RMB50,000) for any illegal activity of overstatement...." was also removed from the measures. Additionally, the definition of "Bulk Agricultural Commodities" was expanded to cover four new items, namely rapeseed, soybean oil, palm oil, and rapeseed oil from the original two items (soybeans and soybean meal) in the previous draft. According to industry sources, the impact of the implementation of these measures is expected to be limited. China's import demand for oilseeds and oils is forecast to continue growing in MY08/09, although domestic oilseed production is likely to increase slightly as well.

#### **Trade policy changes to maintain domestic oilseed product supply**

On May 28, MOF announced a tentative reduction of import tariffs for six commodities including some vegetable oils (GAIN CH8040) effective between June 1 and September 30, 2008. On June 3, 2008, China's Ministry of Finance (MOF) announced that, effective June 13, 2008, the rebate of Value Added Tax (VAT) for exports of vegetable oils would be eliminated (GAIN8054).

The elimination of the VAT rebate on vegetable oil exports and the lowering of import tariffs on food items such as infant food and olive oil are intended to help satisfy increasing domestic consumer demand without putting a strain on availability of supplies. It also aimed at curbing the continually increasing CPI index at 8.7 percent in February and averaging at 7.9 percent for the first half of 2008. China is not a major producer of either product.

China's vegetable oil exports remained low at 100,000 MT in 2007 as compared to an estimated 24 MMT in yearly consumption. The elimination of the VAT rebate is expected to further reduce vegetable oil exports, however, its impact on soybean imports is insignificant.

In an effort to alleviate price pressures for food, particularly pork, China's State Council temporarily reduced the soybean import duty from three percent to one percent effective from October to December 2007. In March 2008, the State Council announced that the one percent soybean import was extended to the end of September 2008. The reduced soybean import duty had limited but symbolic impact on stabilizing the domestic oilseed market.